Inferential Focus

BRIEFING

IF 3824 December 20, 2017

WHAT DOES "BRAND" MEAN, ANYWAY?

BRANDS, BRANDING AND CHANGING MARKET DYNAMICS

CONTEXT & DYNAMICS

The terms "brand" and "branding" *are getting more widely applied, creating confusion among consumers, who seem less and less interested in purchasing "overpriced" branded products. Thus, the rising appeal of private-label or store brands – which can be lower priced and are "good enough" for a busy consumer. Branded products worked well in regional malls, which were set up to "dazzle" consumers into endless shopping and impulse buying, consumer practices that favor brand names. But with the advent of consumers armed with product information and reviews from pros and friends (and "friends"), online buying possibilities, store brand availability and the related decline in number and shrinking in size of retailers, brands face many challenges. Moreover, the proliferation of brands and the focus on branding have made it possible for* ***everything*** *to become a brand, which creates confusion as to value. Brand marketers have responded with…storytelling, creating narratives that often have little to do with the product but that are intended to win the brand name a positive image. Several old beliefs about brands – Brand Names Sell Products, Brand Names Attract Consumers, Brand Names Enable Product Extensions and Brand Names Provide Stability – are proving harder to realize. In all, the function of a brand name is changing; its claim of superior quality is weakening; its higher prices are being challenged; new competitors are coming from everywhere; and its once stable place in the market is becoming less tenable.*

OPPORTUNITIES

- *Companies that produce unique products and manage to keep them unique will prosper.*
- *Companies that make products that meet consumers' "good enough" standard (at the right price) will survive the downsizing spreading across retail.*
- *Repurposing of commercial real estate will increase.*
- *Online distribution of "brands" will continue to grow, benefitting consumers.*

RISKS

- *Commercial real estate is headed toward a tougher market.*
- *Margins for products are thin and will get thinner.*
- *Those brands that cannot sustain their historical rates of sales per square foot will lose shelf space in stores.*
- *Online retail will get overstuffed with merchants just as physical stores have, and failures will ensue.*
- *Private label and store brands change the purpose of marketing by relying less on advertising, which will get hit.*

INFERENTIAL FOCUS

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Brands: Anything and Everything?

Brands and branding are in a confused state. Branding started as a way for a rancher to mark ownership of cattle (to prevent theft). In the process, the brand gave a name to the ranch – *e.g.*, the Lazy R Bar ranch – and, as historian Daniel Boorstin explained, that gave ranch hands an employment identity. However, when the burning of a symbol into a cow's hide moved into products, the word "brand" evolved into something mutable and adaptable, depending on market and corporate needs. In time, brands came to provide a product or company with an identity that could be used and recognized across the country and the world, thereby creating a wider market than localized products could match. By being consistent in production, a brand provided customers with a sense of constancy and quality. Eventually, brands came to provide customers with an image of a product's value.

So a brand can evidently provide its customers with a lifestyle or with nothing more than a product. It can add to diplomacy or hide itself out of sight.

Today, the range of meaning of what a brand is and does can get quite wide. For example, a currently popular term, "lifestyle brand," which is applied to brands such as Vineyard Vines or Goop, essentially means the brand can show people how to live their lives. Michelin, the tire company, aspires to be a "mobility experience brand" that becomes an integral part of its customers' daily lives. Or in a different wide-open meaning to brand, France charged Abu Dhabi more than a half-billion dollars to place the name "Louvre" on a museum opened in the Middle Eastern country, creating what observers have called "brand diplomacy." (*Washington Post*, 10/26/17; *Associated Press,* 11/13/17)

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Pulling back from brands that carry very large meanings to something very small, one can find "no-logo brands." That kind of terminology refers to the recent practice, by companies such as Coach, Jigsaw and Mango, of hiding their brand names inside the product so only the owner can see it. As a design editor at *Elle*, the fashion magazine, explained: "It shows you're buying a bag because you have considered its design rather than just its label." Maybe. At the other end of the brand spectrum from lifestyle brands sits something that might be called "no brand" brands, which suggests that names and images do not matter, only the product's use. One recent startup, called simply Brandless, sells a variety of beauty and personal-care products, all for $3 each. They have no logo or marketing budget and claim no brand identification. As cofounder Ido Leffler commented, "We're redefining what it means to be a brand." (*Times of London*, 12/14/17; *Racked,* 7/19/17)

So a brand can evidently provide its customers with a lifestyle or with nothing more than a product. It can add to diplomacy or hide itself out of sight. What can one do with such a range of meanings?

Anything and everything, evidently. Marketers can add almost anything to a brand name and make it seem right. Recently, for example, brands have added one large external element to their branding messages: storytelling. The idea that a brand can be more successful with a narrative to gain consumer attention does suggest that branded names alone are no longer as effective as sales tools. Brands need stories of their past or present, of what they do for society, or of how they make society better. For instance, the 2017 Budweiser Super Bowl ad featured an apocryphal narrative about the immigrant Adolphus Busch and his finding a beer-making partner in a bar scene in old St. Louis. (*PR Week*, 11/17)

The history of brands from a ranch's name to a storytelling lifestyle product continues. Yet a bigger "story" about brands might include how they got to a point where a story about the product is needed. What does the need of a "story" to encircle or some might say distract from a brand say about the status of brands today?

"I'm torn between brand loyalty & changing trends in the consumer experience."

The Gruen Transfer & Sales Density

Victor Gruen, an Austrian-born architect, is credited with creating the concept for the regional mall. His goal was simple: build an enclosed environment so inviting and alluring that consumers will wander around, forget what they came to buy and end up making impulse purchases. As Gruen's biographer explained his subject's theory, "Shoppers will be so dazzled by a store's surroundings that they will be drawn – unconsciously and continuously – to shop." His concept, which became known as the Gruen Transition, worked for years, with the number of malls in the United States growing between 1970 and 2015 at twice the rate of the population. (*Pacific Standard*, 12/17)

But branded stores being in trouble has meant branded products face problems. More malls meant more floor space to entertain shoppers, which led to the current problem of too much space, which is triggering reactions among industry players.

◆ Sales density, or sales per square foot, at J.C. Penney declined by 20 percent between 2011 and 2016. For Penney to return to the sales density it had in 2011, it would need to close 257 stores, but sales density would be equivalent only if the stores were able to maintain current sales volume in the smaller store footage.

◆ The decline in sales density has led various companies in the U.S. to close 6,800 stores through October of this year, likely to exceed the record closings of 2008.
(*Women's Wear Daily*, 10/4/17; *Motley Fool*, 10/29/17)

Interestingly enough, during the same 2011 to 2016 time frame, stores such as Home Depot, Lowe's, T. J. Maxx/Marshalls, Ross stores and Costco all saw increases in sales density. Changes in sales density are directly related to consumer reassessments of products, and the new value of a product depends on that reassessment – upward for some and downward for others.

Consumers are reassessing the value they attach to branded products. The products to which consumers have assigned a lower value, they are trying to buy for less, if at all. Companies such as Target and Walmart are responding to the negative direction of their sales per square foot by opening smaller stores, often in urban or other heretofore unused locations. For instance, Target is downsizing many of its new stores, from roughly 140,000 square feet to 50,000. What that means is fewer products per store, and that means fewer brands. (*Wall Street Journal,* 10/20/17; *Motley Fool,* 10/29/17)

Retailers seem to be moving away from bigger and more, shifting to smaller and fewer as a means to salvage sales figures and that means trouble for the brands the smaller stores no longer carry. Meanwhile, consumers are buying fewer things and trying to pay less for them. These changes are challenging the value of many branded products.

Several New Dynamics in Play

The New Economy with its tightened pay scales, job replacement by technology and increased nondiscretionary costs is making shopping seem risky

"Our boycotts are saving us a ton of money."

for those with tight budgets, which, in turn, makes the mall seem like a waste of time. Moreover, walking around only stores in malls is no longer seen as entertainment, as the concept of being entertained is shifting to digital devices. And the fun and "dazzle" of mall shopping have been rethought, resulting in more and more consumers focusing on the directness and efficiency of simply buying – that is, more and more consumers increasingly forego the time spent mall shopping and turn instead to buying directly online. In fact, when Amazon asked its customers why they bought fashion items from Amazon, the top two answers were not about style or quality; rather, customers chose Amazon because of "ease and convenience" and "two-day delivery." In other words, the New Economy and the Digitally Trained Consumer favor growth in online buying and have less interest in brands with higher prices (see **IF 3815**; *Bloomberg,* 9/20/17).

In our presentations around consumers' new Hierarchy of Value, we suggested that newly informed consumers, armed with ways to access critical buying information, were shifting their attention from the product to a new process of buying.

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That is, rather than listen to marketing or advertising and watching online corporate messages about the products that they are considering buying, they use a new digital-based process for making decisions. Instead of using brand signals about value, they tap their friends and even their online "friends" for user insights; they consult online commentary on blogs and other sources; they read user assessments at different sites; and they look at sites that provide comparative product advice. Consumers trust this process of buying more than they trust brand messages (see **IF 3810**).

"If you can't fool all the people all of the time, then why are we paying for advertising?"

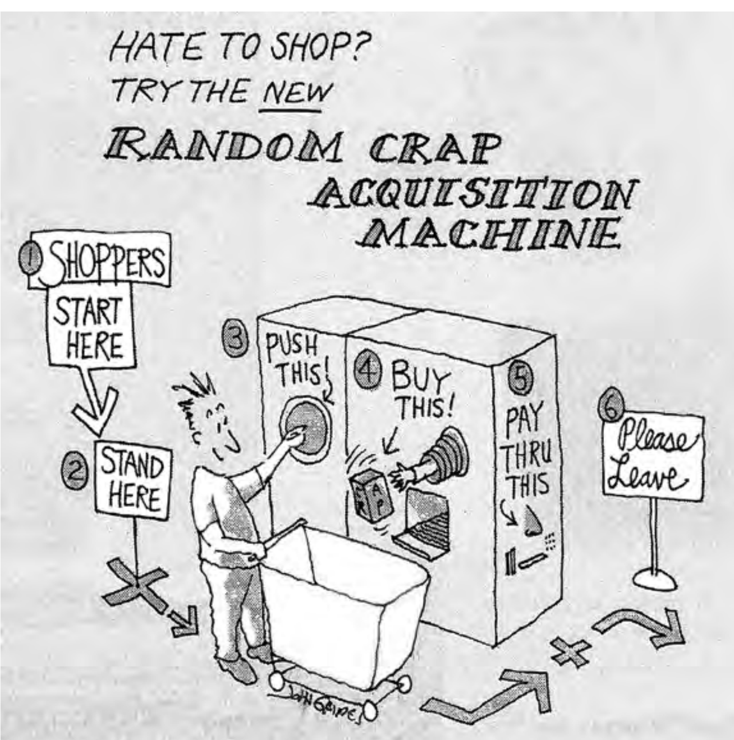
The new decision-making process that overrides branded messaging is altering both consumers and brands. Consider the following shifts under way for these traditional contributors to brand marketing:

Aspirational Shopping – The New Economy has changed individuals' financial wherewithal, and that is changing many consumers' attitude about shopping and buying. They shop less and buy only when they need or want something, meaning the Gruen Transition does not work on them. When they reassess products, many of those products lose their appeal, because consumers are applying what we call the "good enough" metric – that is, "Does this other product seem good enough for my purposes?"

Mass Marketing – Would-be customers have access to sufficient independent resources that supply critical product and service information. Sending mass marketing messages is no longer effective. As a result, companies have changed their process of marketing to include storytelling to attract consumers and online "brand influencers" to grab attention. These brand influencers look and feel more like the consumers themselves than celebrity endorsers, which gives them credibility with consumers. Such storytelling and personal influencing go beyond individual products and might include a company's heritage or origin story, or its philanthropic causes, or how its employees worked at helping local people during a crisis, or how the influencer lives his or her life away from the product. These narratives and influencers can add to brand imagery, attracting attention, and that, it is hoped, will lure customers to buy the branded product.

Mass Production – The historically efficient tool of mass production, while still a viable means of lowering costs, is slowly being converted to service something the market calls personalization, the ability of consumers to buy directly from a manufacturer who creates the suit, shirt, dress, table, lamp or whatever expressly for them, usually based on the consumer's individual measurements or personal design. In other words, mass production is being converted to bespoke production, and in this conversion, the branding imagery is concerned more with the process than the product.

Within the context of these kinds of changes: What does a brand mean, anymore?



Brands Mean Larger Margins, Right?

Spotify, the online music-streaming source, recently announced that it would start selling cosmetics. Using its online marketplace, Merchbar, which enables bands to sell T-shirts, CDs and other products to interested fans, the company will coordinate with a musician and a cosmetics maker to sell "branded" cosmetics to music lovers. (*Pymnts*, 11/13/17)

Such a surprising product-line shift is exemplary of what we have called Market Jumpers, companies spreading out from their historical markets to entirely new arenas. This is made possible, in part, by the extensive manufacturing capacity available to would-be producers. Such capacity, which can be accessed anywhere in the world, has given rise to a rapidly expanding market for private-label manufacturing, another challenge to existing brands.

◆ Sales of private-label brands across all categories hit a record high in 2016, surpassing $150 billion. Through October of this year, such sales have increased by 26 percent over 2016. To take one example, Amazon has more than 34 private-label brand names, yielding a combined gross profit of more than $1 billion for the online retailing giant. (*Investor's Business Daily*, 10/30/17; *Drug Store Sales*, 11/17)

Private labels, also called store brands among retailers, provide larger margins and more differentiation for sellers. For that reason, sales of private labels last year increased at four times the rate of national brands. And that disparity is likely to grow. Consider:

◆ In the next two years, Macy's plans to increase the percent of overall sales generated by its 20 store brands, from the current 29 percent to 40 percent.

◆ Roughly a quarter of Costco's annual sales are from its store brand, Kirkland.

◆ CVS has a store brand, CVS Health, that includes 3,000 products, and CVS sells all of its branded products at twice the pace of the next leading brand in the store.

(*Advertising Age,* 8/21/17; *Investor's Business Daily*, 10/30/17; *Wall Street Journal*, 9/10/17; *Forbes*, 10/12/17)

More critical to popular brands, however, is the way Costco decides what new store brands it should create: The company searches for brands that are not selling at the lowest possible price and then creates a Kirkland competitor at what Costco surmises is the lowest price.

The aggressive move toward private labels, while not always successful, does have an equal chance of attracting customers. For instance, a recent study of Millennials discovered that more than half of them (51 percent) have no real preference between national brands and private-label brands. (*Advertising Age*, 10/11/17)

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Brand names are proliferating, spreading out from national brands to store brands. As a result, everything and anything can be called a brand; all it needs is an identity. Even if a brand name is Brandless and its products reach the market without advertising, it still becomes a brand. So, what does a brand mean anymore? Consider these no-longer effective uses for brand names.

"It's a rare generic defect. To put it bluntly, you have no brand loyalty."

Brand Names Sell Products – Brand names are now being hidden in new products, moving the product's design and quality, not its branding, to the forefront of a customer's mind. For instance, women's handbags by Boyy, All Saints and Mansur Gavriel have no external brand logos. (*Times of London*, 12/14/16)

Brand Names Attract Consumers – The idea of a brand-loyal consumer faces tougher days ahead. As one Millennial explained, "I only care about the product – who cares about the brand? I'm willing to experiment. I'm going to try everything out there. I'm not loyal." Also, the consumers' Hierarchy of Value encourages constant reassessment of products, pushing more and more products and services down to the Restraint, or lower price, category. As Scott Wingo, executive chair of Channel advisor, an e-commerce consulting firm, suggested: "Amazon is becoming like the umbrella brand, the only brand that matters." So we now have brands that aggregate and essentially disable branded products sold through those aggregate brands (*New York Times*, 12/9/17; *Advertising Age*, 10/16/17; *New York Times,* 12/9/17).

Brand Names Provide Stability – "It's not a less competitive world," explained Bob Nolan, senior vice president at Conagra Brands (formerly Conagra Foods), which is undergoing a massive restructuring to salvage market share. "It's like 10 times more competitive just in the past 10 years...." Consider the cosmetics industry. For a while, "organic" was a critical descriptor for a cosmetic product, but soon that was replaced by "green," then came "botanical," followed by "natural" and "eco" and "pure." All of those have recently been displaced by "clean," which is the signature characteristic of new product lines by Goop, Follain, Beautycounter and Credo. None of these terms has any legal standing, confusing customers and competitors alike. Such a constantly changing product line across the market is anything but stable. (*Advertising Age*, 10/16/17; *Business of Fashion,* 7/15/17)

Brand Names Enable Product Extensions – The spread of attention deficit disorder (ADD) facilitated by digital technology, according to some designers, threatens a brand's ability to hold a customer's attention long enough to add other products. The founder of Kiini, an online swimwear product, explained that she "wouldn't have had the chance to grasp the attention of the ADD social media culture of our times or the eye of exhausted buyers," if she had tried to expand her product offering. It has become too easy to touch a screen and change sites, apps or images, making continued attention to brand extensions less and less likely. The original success of mono-brands, such as Spanx, Ugg Australia, Thinx, Shrimps, Monographie and a growing number of other single-product companies, suggests that brand extensions might have limited effectiveness. (*Fashion Law*, 9/7/17; *Times of London*, 9/7/17)

Mono-brands make a statement: You have to deliver what the customers want in the method they want and at a price they accept. When that no longer works, change.

Based on the various changes in markets, consumer attitudes, production capabilities, economic realities and digital technology, we can surmise that for brands, their:

Name as a marketing tool is getting harder to exploit.
Claim of superior quality is getting challenged.
Ability to sustain higher prices is weakening.
Competitors are proliferating.
Stabilizing force in the market is losing power.

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I Know What I Like

Art historians often say that artists decide when an object is art. That is, if artists say this work is art, then it is art. So, too, for brands: As brand competitors proliferate, anything a marketer calls a brand must be a brand. However, most people's response to the claim of artists defining art goes something like this: "I don't know much about art, but I know what I like." That is becoming true for brands, as well. People do not know much about lots of brands, but they do know what they want, what they will pay for what they want, what online reviewers, friends and comparative shopping sites say about what they want, and which products are "good enough" to fulfill the need met by what they want. Such a perspective changes markets.

The one characteristic that could possibly overcome these vulnerabilities is a product's uniqueness, yet massive manufacturing facilities and digital capabilities plus extensive design potential make uniqueness a threatened selling point. Bespoke and personalized production could uphold the uniqueness, while shifting attention from branded product to branded process. Meanwhile, luxury lines that maintain completely vertical operations, from nurturing raw materials up and through the retailing, will be able to sustain quality and branding imagery. Brands might be whatever a producer claims them to be. But overall, brands are so plentiful that they are losing their market appeal.

The challenge to brands' superiority in the marketplace started at the lower levels of most markets, where new competitors at lower prices have challenged established brands. Challenges to a brand's sense of superiority have steadily moved upmarket, reaching the upper middle class. Will these challenges continue upward? At that top level, the question remains: What Does "Brand" Mean, Anyway?

Some of our previous looks at this topic:

IF 3815 Digital Technology Is Training Consumers: Consumers Think And Operate Differently, And Retailers Are Forced To Change, 7/20/17

inF 1210 Retail Restructuring: The Great Distribution Experiment, 11/16/17

IF 3810 What The New Economy Has Wrought: Anomalies And Changes In How The Economy Works, 6/1/17

inF 1102 The Three Squeezes Strike: Economic Risks When There’s A Lot Resting On Equities, 2/18/16

IF 3611 The Frontiers Of An Actual New Economy, Part II: An Outline Of A Changed Sense Of Value And Ways Of Operating, 7/9/15

IF 3610 The Frontiers Of An Actual New Economy, Part I: Shifts In Value And Importance In Response To Changed Conditions, 7/9/15

IF 3411 Paradigms Lost In Retail: Piecing Together A New Retailing Paradigm, 6/28/13